

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER	)	
COMPANY'S INTERIM AND PROSPECTIVE,	)	
HEDGING RESOURCE PLANNING,	)	CASE NO. IPC-E-01-16
TRANSACTION PRICING, AND IDACORP	)	
ENERGY SERVICES (IES) AGREEMENT	)	
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IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business  
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what  
5 capacity?

6 A. I am employed by Idaho Power Company; as the  
7 Vice President of Regulatory Affairs.

8 Q. Please describe your work experience.

9 A. In October 1983, I accepted a position as  
10 Rate Analyst with Idaho Power Company. In March 1990, I was  
11 assigned to the Company's Meridian District Office for one  
12 year where I held the position of Meridian Manager. In  
13 March 1991, I was promoted to Manager of Rates. In July  
14 1997, I was named General Manager of Pricing and Regulatory  
15 Services. In March of 2001, I was promoted to Vice  
16 President of Regulatory Affairs. As Vice President of  
17 Regulatory Affairs, I am responsible for the overall  
18 coordination and direction of the department, including  
19 development of jurisdictional revenue requirements and class  
20 cost-of-service studies, preparation of rate design  
21 analyses, and administration of tariffs and customer  
22 contracts. In my current position, I am actively involved

1 with restructuring activities throughout our service  
2 territory.

3 Q. What is the purpose of your testimony in this  
4 proceeding?

5 A. I will address the Commission's desire to  
6 more fully review the manner in which Idaho Power Company  
7 ("Idaho Power" or "the Company") and IDACORP Energy  
8 Solutions, LP ("IES") can conduct business for the benefit  
9 of Idaho Power's customers on both an interim and  
10 prospective basis. Additionally, I will speak to Idaho  
11 Power's approach to providing resources to meet system loads  
12 during the near-term time period.

13 Q. Please summarize Idaho Power Company's  
14 recommendation for the interim rules governing transactions  
15 between Idaho Power Company and IES.

16 A. Until such time as the Idaho Public Utilities  
17 Commission ("IPUC" or "Commission") makes a final  
18 determination that the existing rules should be changed,  
19 Idaho Power believes that the rules governing the conduct of  
20 transactions between Idaho Power and IES (including transfer  
21 prices) should be the same rules accepted by the Commission  
22 in Order No. 28596 issued in Case No. IPC-E-00-13. Idaho

1 Power believes this approach is consistent with prior  
2 Commission decisions requiring that practices and rules  
3 adopted by the Commission remain in effect until changed by  
4 subsequent IPUC order.

5                   The Agreement may need to be modified  
6 slightly to comply with the final order of the Federal  
7 Energy Regulatory Commission ("FERC") approving the  
8 Electricity Supply Management Services Agreement ("the  
9 Agreement") that was the subject of IPUC Order No. 28596.  
10 When the final order is received from FERC, if it is  
11 acceptable to Idaho Power, it will be filed with the IPUC.  
12 If any changes to the existing rules are necessitated by the  
13 FERC order, Idaho Power will make a filing to obtain  
14 Commission approval for such change.

15           Q.       Please summarize the principals that Idaho  
16 Power believes should underlie the rules governing  
17 transactions between Idaho Power Company and IES.

18           A.       The rules governing transactions between  
19 Idaho Power and IES should be designed to achieve (1)  
20 alignment of risk and reward, (2) sharing of the economic  
21 and market knowledge benefits of one trading operation, (3)  
22 protection against affiliate abuse, and (4) energy transfers

1 at visible, verifiable market prices. I believe that a  
2 reasonable period of operating experience will demonstrate  
3 that the existing Electricity Supply Management Services  
4 Agreement between Idaho Power and IES will meet these  
5 criteria. A copy of the Agreement is included as Exhibit 1  
6 to my testimony.

7 Q. Please describe the existing Electricity  
8 Supply Management Services Agreement.

9 A. Under the business arrangement memorialized  
10 in the Electricity Supply Management Services Agreement  
11 submitted to the FERC, the IPUC, and the Oregon Public  
12 Utility Commission ("OPUC"), IES will purchase surplus power  
13 from Idaho Power on a daily and real-time basis, and will  
14 make daily and real-time sales of electricity to Idaho Power  
15 to meet native load needs. All wholesale transactions  
16 between Idaho Power and IES will be at market prices. The  
17 Agreement also provides for IES to serve as a broker for  
18 Idaho Power transactions, which will be performed on a non-  
19 exclusive basis.

20 Q. Why did Idaho Power and IES develop the  
21 Agreement?

22 A. Idaho Power and IES developed the Agreement

1 to respond to changes in the competitive wholesale  
2 electricity market and concerns expressed by Idaho Power's  
3 customers regarding the allocation of costs between  
4 operating and non-operating transactions in that market.  
5 Idaho Power's goal is to prudently and cost-effectively  
6 participate in the wholesale electricity market for the  
7 benefit of the Company's retail customers. Idaho Power  
8 believes that there are significant cost savings and market  
9 risk mitigation benefits that are realized by contracting  
10 with IES to provide electricity marketing and other  
11 electricity supply management services to Idaho Power. The  
12 Agreement benefits Idaho Power's customers by protecting  
13 them from the risk of speculative transactions while at the  
14 same time lowering Idaho Power's administrative costs of  
15 participating in the market. Pursuant to a stipulation  
16 previously approved by the IPUC, Idaho Power will flow back  
17 \$2,000,000 per year to reflect these estimated cost savings  
18 once the Agreement is approved by all appropriate regulatory  
19 authorities. The Agreement also enables Idaho Power,  
20 through advice given by IES, to apply greater expertise in  
21 the wholesale market, resulting in better optimization  
22 between cost and risk for customers.

1                   This arrangement will protect Idaho Power's  
2 retail customers from practices that FERC has characterized  
3 as "affiliate abuse". All transactions between Idaho Power  
4 and IES will be priced at market, as determined by published  
5 market indexes (daily transactions) or transactions with  
6 non-affiliates (real-time transactions). These market  
7 prices are not subject to manipulation by Idaho Power or  
8 IES. Real-time transactions are transactions up to 12 hours  
9 in duration (usually hourly transactions), while daily  
10 transactions are 24-hour transactions (usually next day  
11 transactions). Longer-term transactions may be brokered by  
12 IES or entered into directly with third parties by Idaho  
13 Power.

14           Q.       Please describe the circumstances leading up  
15 to the Power Supply Management Agreement between Idaho Power  
16 and IES.

17           A.       The Agreement is the outgrowth of a number of  
18 events that Idaho Power has experienced in its wholesale  
19 marketing activities coupled with the risks associated with  
20 Idaho Power's unique generation resource supply mix. One of  
21 the unique characteristics of Idaho Power is its heavy  
22 reliance on hydro-based generation.

1           Q.       Why is the Company's hydro-based generation a  
2 factor in the evolution of the Agreement?

3           A.       At one time, virtually all Idaho Power  
4 generation came from hydroelectric facilities on the Snake  
5 River. Because of the variations in streamflow conditions  
6 from year-to-year, the Company became active in the  
7 Northwest energy markets, buying from others during low  
8 water years and during the low streamflow periods within  
9 individual years, while selling its surplus power during  
10 periods when water was abundant.

11                   Over the years, the Company added some  
12 thermal (coal-fired) plants, through joint ownership, to  
13 complement the hydro facilities. Nevertheless, in a normal  
14 water year hydro facilities still produce more than 60% of  
15 the generation on the Idaho Power system. Idaho Power  
16 continues to buy and sell in short-term markets to balance  
17 the system's loads and resources. During the summer months,  
18 Idaho Power has relied and planned on short-term power  
19 purchases, rather than installing new generation, to serve  
20 the peak system loads. While this approach has been viewed  
21 as a long-term, least-cost solution, there is an added  
22 element of near-term risk that Idaho Power faces as an



1 active participant in the wholesale market that many other  
2 utilities do not face.

3               As a hydro-based utility, Idaho Power is  
4 unique in its exposure to supply risk associated with its  
5 reliance on generation with an inherently unpredictable fuel  
6 source -- water. All electric utility companies (including  
7 Idaho Power) face volume risks associated with economic  
8 conditions and weather fluctuations. Loads can go up and  
9 down based upon a robust or sluggish economy. Furthermore,  
10 extreme temperatures can affect the load volume as well.  
11 For hydro utilities, there is an extra element of supply  
12 risk that the utility must manage. The additional risk is  
13 the uncertainty of the amount of generation available to  
14 meet load. Water storage is severely limited due to  
15 reservoir constraints. When the water is not available,  
16 there is no fuel to run the hydro plant. The fuel  
17 availability is an important distinction in comparing  
18 predominately hydro-based utilities and predominately  
19 thermal-based utilities. This supply risk introduces an  
20 added element of uncertainty for Idaho Power as a wholesale  
21 market participant.

22               Idaho Power's hydro resources provide

1 positive economic impacts to the utility and its customers  
2 because these plants operate with virtually a zero fuel  
3 cost. Under normal conditions, the total system generation  
4 cost for Idaho Power is among the very lowest for investor-  
5 owned utilities in the United States. As purchased power  
6 costs become more volatile, they become more important to  
7 the overall power supply costs of Idaho Power. The Company  
8 wants to protect its overall low cost status from the  
9 adverse impacts of high purchased power costs. By  
10 sheltering Idaho Power Company from the more speculative  
11 market transactions, the Agreement is designed to reduce the  
12 risks that Idaho Power faces as a wholesale market  
13 participant to help ensure that purchased power expenses do  
14 not upset Idaho Power's favorable cost situation, to the  
15 detriment of Idaho Power's retail customers.

16 Q. Please describe the emergence and growth of  
17 the Company's trading activities.

18 A. The size and complexity of the wholesale  
19 markets for electricity have increased dramatically in the  
20 past few years, as has Idaho Power's participation in those  
21 markets. In addition, the IPUC has approved a method to  
22 change Idaho Power's rates that encourages Idaho Power to

1   reduce wholesale power purchase costs for its retail  
2   customers.

3                   In Idaho, prior to 1993, Idaho Power sold  
4   power to retail customers at fixed capacity and energy  
5   charges (that is, charges that were subject to adjustment in  
6   rate proceedings, but not through the operation of a fuel  
7   adjustment clause or similar provision). In 1993, following  
8   several years of drought conditions in which Idaho Power's  
9   purchased power expenses substantially exceeded  
10  expectations, the IPUC approved Idaho Power's request to add  
11  a Power Cost Adjustment ("PCA") to the Company's Idaho  
12  retail rate structure. The IPUC and the Company's Idaho  
13  retail customers favored this arrangement because it enabled  
14  those customers to receive the benefit of more favorable  
15  water conditions in the form of reduced rates. With the  
16  implementation of the PCA, Idaho Power's shareholders' and  
17  customers' interests became aligned, because they both  
18  shared in the savings and costs from operating transactions.

19                   Historically, Idaho Power's wholesale  
20  transactions primarily involved sales of Idaho Power  
21  resources that were temporarily surplus to Idaho Power's  
22  retail customers' needs, and purchases of generation needed

1 to meet Idaho Power's retail customers' needs. Idaho Power  
2 refers to such purchases and sales as "operating"  
3 transactions. Then, in the mid-1990's, as the wholesale  
4 power market continued its rapid expansion, Idaho Power  
5 identified increasing opportunities to engage in more  
6 speculative off-system transactions that were unrelated to  
7 the Company's system resources. Idaho Power refers to such  
8 purchases and sales as "non-operating" transactions. In  
9 1998, the Emerging Issues Task Force ("EITF") of the  
10 Financial Accounting Standards Board ("FASB") issued EITF98-  
11 10, Accounting for Contracts Involved in Energy Trading and  
12 Risk Management Activities. EITF98-10 became effective for  
13 all fiscal quarters beginning with fiscal years that started  
14 after December 15, 1998. Idaho Power's simultaneous  
15 participation in operating and non-operating transactions,  
16 along with the establishment of accounting and reporting  
17 standards for energy trading contracts by the Emerging  
18 Issues Task Force of the Financial Accounting Standards  
19 Board created the need for Idaho Power to separate the  
20 transactions for accounting and ratemaking purposes. Idaho  
21 Power adopted these standards on January 1, 1999.

22 Q. What was the accounting and ratemaking result

1 of adopting these standards?

2           A.       Since January 1, 1999, transactions related  
3 to balancing of system load and system resources and  
4 transactions related to system reliability are classified as  
5 "operating" and remain on settlement accounting. These  
6 transactions are recorded and maintained in an "operating"  
7 trading book that is separated from other trading  
8 transactions. Operating transactions meet the "energy  
9 contracts" definition of the Emerging Issues Task Force  
10 consensus opinion because they are expected to settle  
11 physically. Operating transactions continue to be booked in  
12 FERC Accounts 447 or 555 and are thus included for PCA  
13 reporting purposes.

14                   Transactions not related to the balancing of  
15 the system load and resources are classified as "non-  
16 operating" or energy trading contracts and are required to  
17 be accounted for using mark-to-market, or fair value  
18 accounting. These transactions are maintained in "non-  
19 operating" trading books that are differentiated from one  
20 another by time periods; *i.e.*, transactions that settle  
21 outside the "prompt" month, transactions that settle within  
22 the prompt month or sooner, and daily or real time

1 transactions. The prompt month is the month following the  
2 current month. Non-operating transactions meet the "energy  
3 trading contracts" definition of the Emerging Issues Task  
4 Force consensus opinion and beginning in January 1, 1999  
5 have been booked in FERC Account 421 and are thus excluded  
6 for PCA reporting purposes.

7 Purchases or sales are typically classified  
8 as operating or non-operating at the time of the  
9 transaction. As transactions close in real time, the  
10 operating system book needs to balance against the physical  
11 requirements of the loads and resources. Beginning one  
12 month prior to scheduled settlement, transactions between  
13 the operating and non-operating books occur at the  
14 appropriate market settlement price in order to start  
15 bringing the system into balance.

16 In Idaho Power's 1999-2000 PCA case (Case No.  
17 IPC-E-99-3), some of Idaho Power's larger customers  
18 expressed concern regarding Idaho Power's operating and non-  
19 operating transactions and whether Idaho Power's expenses  
20 and capital costs were being properly allocated between  
21 operating and non-operating transactions. In response to  
22 these concerns, the IPUC issued Order No. 28049 directing

1 the parties to determine how best to address the issues  
2 raised by the customers. Subsequently, on February 14,  
3 2000, the IPUC Commission Staff filed a report addressing  
4 some of the issues raised by the customers in the 1999-2000  
5 PCA case. The IPUC acknowledged receipt of that report in  
6 Idaho Power's 2000-2001 PCA case and encouraged the parties  
7 to address the issues further.

8                   In further response to the concerns expressed  
9 in the above-cited cases, Idaho Power is moving its non-  
10 operating transactions into a separate entity. IES has been  
11 chosen as that entity. IES rents office space from someone  
12 other than Idaho Power, has its own employees, and is  
13 managed and operated independently from Idaho Power. Moving  
14 non-operating transactions to IES will substantially reduce  
15 the levels of support services currently provided by Idaho  
16 Power and will provide a clearer line of demarcation between  
17 the operating and non-operating electric marketing  
18 businesses of IDACORP, Inc. Upon final implementation of  
19 the Agreement, Idaho Power as an entity, will no longer  
20 participate in non-operating transactions, and the more  
21 speculative transactions that are currently non-operating  
22 transactions will be undertaken exclusively by a separate

1 corporate entity, IES. Idaho Power adopted this structure  
2 to meet the concerns expressed by Idaho Power's customers  
3 and the IPUC in the 1998-1999, 1999-2000, and 2000-2001 PCA  
4 cases.

5 Q. How is the wholesale electric market of today  
6 different from the one of yesteryear?

7 A. The wholesale market is becoming more  
8 complex. The decreased regulatory oversight and the  
9 increased volume of wholesale transactions between  
10 suppliers, marketers and consumers of bulk electricity has  
11 created an increasing demand for market participants to  
12 maintain a high level of market intelligence and  
13 understanding of market movements. The increasing  
14 availability of sophisticated financial instruments for  
15 managing price volatility risk for electricity transactions  
16 has further stimulated the burgeoning wholesale market for  
17 electricity. Regardless of the status of restructuring of  
18 the retail electric utility industry in the state of Idaho,  
19 this expanding wholesale market will continue to  
20 significantly affect the way Idaho Power operates in this  
21 changing environment.

22 While the expanding wholesale market has the



1 potential to provide opportunities for increased price  
2 efficiency resulting from a larger and more diverse group of  
3 market participants and products, there are certainly  
4 greater costs and risks associated with managing power  
5 supplies within this new environment. The Agreement  
6 addresses these concerns by increasing Idaho Power's access  
7 to expertise in the wholesale market, while protecting Idaho  
8 Power's retail customers from speculative trading risks.  
9 Idaho Power believes that there are significant cost savings  
10 and market risk mitigation benefits that can be realized by  
11 this arrangement, which I describe in greater detail later  
12 in my testimony.

13 Q. What functions or activities are remaining  
14 with Idaho Power?

15 A. The Agreement alters the manner in which  
16 Idaho Power will transact in the wholesale market, but does  
17 not alter Idaho Power's generation and reliability  
18 obligations. Under the Agreement, Idaho Power continues to  
19 own, operate and maintain its system resources and be  
20 responsible for system reliability. Idaho Power continues  
21 to dispatch system resources to match generation and load  
22 within the Idaho Power control area. The Agreement does not

1 modify Idaho Power's commitment or ability to manage and  
2 control its system resources in a manner that will provide  
3 Idaho Power's customers with access to all available  
4 capacity and energy from Idaho Power's system resources on a  
5 first-priority basis. Idaho Power will comply with its  
6 FERC-approved Code of Conduct in providing any non-power  
7 goods and services to IES, as well as any additional  
8 requirements governing transactions between affiliates that  
9 the state commissions may find to be appropriate.

10 Q. What functions are moving to IES?

11 A. Under the Agreement, IES provides wholesale  
12 marketing services to Idaho Power. IES and Idaho Power  
13 enter into daily and real-time purchases and sales, and IES  
14 serves as a non-exclusive broker for longer-term  
15 transactions (such transactions are entered into directly  
16 with third parties). Transactions between the two entities  
17 occur only when Idaho Power determines that such  
18 transactions would be beneficial for Idaho Power and its  
19 customers. This arrangement enables Idaho Power to balance  
20 its system load and resources. In addition, IES buys power  
21 from Idaho Power at market prices when Idaho Power  
22 determines that Idaho Power has surplus power for sale and

1 that such sales would be beneficial to Idaho Power and its  
2 customers. All of the transactions between Idaho Power and  
3 IES are at market prices established in a manner that  
4 prevents either entity from benefiting at the expense of the  
5 other. IES obtains the transmission and ancillary services  
6 that are necessary to deliver Idaho Power's purchases and  
7 sales to the agreed-upon destination. IES advises Idaho  
8 Power regarding desirable transactions to enter into, and  
9 serves as a non-exclusive broker for purchases and sales  
10 with a duration that exceeds one day. IES complies with the  
11 FERC's Code of Conduct for its brokering activities.

12 In addition to the power purchases and sales  
13 described previously, the Agreement states that IES will  
14 provide Idaho Power various other non-power goods and  
15 services. IES advises Idaho Power regarding scheduling,  
16 hedging transactions, and risk management activities to  
17 minimize price volatility, among other things. In this  
18 role, IES among other things, confirms purchases and sales,  
19 administers market-based contracts, and coordinates  
20 scheduling of energy transactions in adherence with  
21 transaction protocols. IES also provides finance and  
22 accounting support and counter-party credit analysis for

1 power marketing activities. Credit analysis has become an  
2 increasingly important activity for wholesale market  
3 participants, and requires the application of substantial  
4 expertise and resources to be done effectively. Idaho Power  
5 complies with the FERC's Code of Conduct and the Statement  
6 of Policy and Code of Conduct accepted by the IPUC on an  
7 interim basis in Order No. 28596 in purchasing these and  
8 other non-power goods and services from IES.

9 Q. How do Idaho Power's customers benefit under  
10 the Agreement with IES?

11 A. By entering into the Agreement with IES,  
12 Idaho Power believes that it will be able to lower its  
13 expenses, streamline staffing requirements, reduce the risks  
14 associated with power market volatility, and maintain its  
15 existing high level of system operating efficiency and  
16 reliability. These results will benefit Idaho Power's  
17 retail customers.

18 Possibly the greatest benefit to Idaho  
19 Power's customers, and one of the central reasons why Idaho  
20 Power developed this proposal, is the realignment of risk  
21 and reward under the proposed organization. Recent events  
22 have demonstrated that today's more volatile energy markets

1 can present significant risks for utilities and potentially  
2 for their customers. Under the Agreement, speculative  
3 transactions will be performed by IES for its own account  
4 rather than by Idaho Power. This assigns to IES, rather  
5 than to Idaho Power, the potential risks and rewards from  
6 these transactions. This arrangement benefits Idaho Power's  
7 retail customers, because they are sheltered from the  
8 speculative market transactions of the affiliate IES. In  
9 addition, safeguards are being established to prevent  
10 speculation on behalf of the utility. System transactions  
11 will be directed toward balancing loads and resources while  
12 considering cost, reliability and risk. Idaho Power's  
13 Oversight Manager will approve system transactions. The  
14 Oversight Manager's decisions will be reviewed by the  
15 Corporate Risk Management Committee and subject to at least  
16 annual review by the IPUC Staff.

17               While retail customers lose the potential  
18 rewards of speculative transactions under this arrangement,  
19 this is more than offset by the reduction in risk from these  
20 transactions. As previously mentioned, Idaho Power has some  
21 of the lowest retail rates in the Nation, but experiences  
22 unique risks in participating in the wholesale electricity

1 market. By protecting retail customers from the additional  
2 risks of speculative transactions, Idaho Power can better  
3 ensure that its purchased power expenses can be managed  
4 while maintaining a favorable rate environment for its  
5 customers.

6               Retail customers will enjoy the benefits of  
7 the market expertise that a full scale trading operation has  
8 to offer. The benefit manifests itself in the market advice  
9 that can be offered in developing the operating plans for  
10 the system and in the recommendations regarding potential  
11 system hedging transactions on behalf of the system. IES  
12 will be operating in virtually all of the Western markets  
13 for virtually all time frames. All of the market  
14 information gleaned during those operations will be  
15 available to Idaho Power for decision-making purposes. In  
16 addition, Idaho Power will obtain increased access to people  
17 familiar with sophisticated financial instruments intended  
18 to reduce risk and mitigate price volatility.

19               IES will assist Idaho Power in managing its  
20 system resources in an optimum manner. Dispatch decisions  
21 can be made using the best available market information.  
22 The information assists day-to-day operations, as well as

1 longer-term decisions related to scheduled maintenance,  
2 river operations, and customer program coordination.

3 Customers further will benefit from the  
4 clearer separation of the non-power costs between Idaho  
5 Power and IES through organizational and reporting changes  
6 as well as the physical location move. Allocations will be  
7 replaced with verifiable direct cost assignments. These  
8 direct cost assignments will be in compliance with  
9 applicable IPUC and FERC Code of Conduct requirements.

10 Finally, Idaho Power's customers will benefit  
11 from overall reduced costs that will flow through directly  
12 into jurisdictional revenue requirement determinations. The  
13 cost reduction is attributable to the ability to serve two  
14 entities with one trading operation instead of two. Both  
15 entities benefit by sharing the costs instead of replicating  
16 the corresponding organization and costs within each. As  
17 discussed above, Idaho Power has agreed to flow through to  
18 its Idaho retail customers \$2,000,000/year in cost savings  
19 once the Agreement is approved by the necessary regulatory  
20 authorities, allowing these cost savings to occur.

21 Q. What protections are in place to prevent  
22 affiliate abuse?

1           A.           Idaho Power recognizes that the IPUC and  
2 interested retail customers are concerned that inter-  
3 affiliate transactions do not create the opportunity for  
4 those affiliates to shift benefits from utility customers to  
5 shareholders. The Agreement recognizes and addresses these  
6 affiliate abuse concerns and includes measures that prevent  
7 affiliate abuse from occurring.

8                   The market price to which Idaho Power and IES  
9 will tie the transaction price is an objective standard for  
10 the pricing of electricity that is not subject to  
11 manipulation by Idaho Power or IES.

12                   For daily transactions, the market price will  
13 be determined based on published market indexes. The  
14 Agreement specifically references the Dow Jones Mid-Columbia  
15 Electricity Price Index ("Mid-C") and the Dow Jones Palo  
16 Verde Price Index ("PV"). The Mid-C and PV Indexes are  
17 reliable and verifiable sources indicative of the prevailing  
18 market price, and are appropriate Indexes to use to  
19 determine the market price for daily electricity  
20 transactions. Mid-C and PV are two of the three major cash  
21 markets in the west. Mid-C is an active trading hub, with  
22 trading volumes comparable to those at PV. The Mid-C Index



1 is widely used for indexed wholesale and retail  
2 transactions. For example, Idaho Power references the Mid-C  
3 Index for several of its retail contracts and tariffs,  
4 including non-firm prices for purchases from Qualifying  
5 Facilities. Exhibits 2 and 3 explain the Mid-C and PV Index  
6 categories that Dow Jones publishes, and the methodology  
7 that Dow Jones uses to calculate these indexes. As shown in  
8 that discussion, both the indexes and methodologies are  
9 comparable. For both indexes, prices are published daily  
10 based on actual transactions.

11               For real-time transactions, Idaho Power will  
12 determine the market price based on the weighted average of  
13 the real-time prices at which IES bought and sold power to  
14 non-affiliates. The average of these transactions is  
15 indicative of the market price at the time, and its use  
16 provides appropriate protection against affiliate abuse.

17               All energy transactions (buy or sell) that  
18 are not real-time or daily will be bilateral agreements with  
19 third parties and may be or may not be brokered by IES.

20           Q.       Please provide an example to illustrate the  
21 transfer pricing in use.

22           A.       If Idaho Power desired to purchase or sell

1 power in June 2002 for the month of July 2002 (e.g., to meet  
2 expected peak loads), it would enter into a transaction  
3 directly with a third party or parties, or use IES'  
4 brokering services to arrange such a third party transaction  
5 if warranted. If, during July 2002, Idaho Power desired to  
6 enter into a transaction for a particular day (e.g., to meet  
7 a sudden load increase due to hot weather), it would  
8 transact with IES, and the price for such transaction  
9 between Idaho Power and IES would be based on the Mid-C or  
10 PV index as appropriate. If, during a particular day in  
11 July 2002, Idaho Power desired to enter into a real-time  
12 transaction (e.g., to sell during off-peak hours power  
13 acquired in a daily transaction to meet on-peak needs), it  
14 would transact with IES, and the price for such transactions  
15 between Idaho Power and IES would be based on the weighted  
16 average of the real-time prices at which IES bought and sold  
17 power to non-affiliates.

18           To further protect against potential  
19 affiliate abuse, the Agreement provides for Idaho Power to  
20 designate an Oversight Manager to ensure that Idaho Power's  
21 interests are protected. Idaho Power's Oversight Manager  
22 will be an officer or senior manager in the Company, and

1 will report directly to the Office of the Chief Executive  
2 Officer and to Idaho Power's Risk Management Committee. The  
3 Idaho Power Oversight Manager will be responsible for  
4 coordinating with IES and providing a single decision-making  
5 point from Idaho Power concerning IES's provision of the  
6 power marketing and system management services.

7                   In addition to engaging in inter-affiliate  
8 purchases and sales, IES will provide brokering services to  
9 Idaho Power. These services will be provided in accordance  
10 with FERC's Code of Conduct brokering rules (including the  
11 requirement that the brokering arrangement between IES and  
12 Idaho Power be non-exclusive), and thus do not present the  
13 potential for affiliate abuse. Finally, Idaho Power and IES  
14 will engage in the purchase and sale of non-power goods and  
15 services, as described above. These services will also be  
16 provided in accordance with FERC's Code of Conduct rules for  
17 non-power goods and services. The combination of the FERC  
18 Code of Conduct rules and the outcome of the pending IPUC  
19 docket in codes of conduct should provide adequate comfort  
20 to the Commission that affiliate abuse is adequately  
21 mitigated.

22           Q.       Please describe Idaho Power's resource

1 planning process, beginning with long-term planning and  
2 ending with the "next-hour" decisions.

3           A.           Idaho Power plans to serve its loads under  
4   the general guidance of its Integrated Resource Plan  
5   ("IRP"). The last such plan was filed with the Idaho Public  
6   Utilities Commission and the Oregon Public Utility  
7   Commission in June 2000. It was acknowledged by the IPUC in  
8   December 2000. The IRP is a long term (10 years) look at  
9   load and resources and emphasizes median water conditions  
10  for planning purposes. As might be expected, because of the  
11  median water assumption, the 2000 IRP necessarily relies  
12  more heavily on market purchases to provide energy in dry  
13  years than a resource plan that acquires system resources  
14  based upon critical water conditions.

15           Q.       Please explain in more detail how planning  
16   for the near-term time period takes place.

17           A.           Under the Company's existing IRP, the Company  
18 plans to cover its near-term energy deficiencies through  
19 short-term purchases in the wholesale market. Other  
20 alternatives to market purchases such as demand-side  
21 initiatives or supply-side options are evaluated against  
22 market purchases on an economic basis. Additionally, near-

1 to-mid term market purchases are evaluated by the Company's  
2 Risk Management Committee as to the timing of such  
3 purchases. Typically, Idaho Power Company buys to meet  
4 expected system requirements and does not take speculative  
5 positions in the market.

6 The Company's planning process in the short-term is  
7 complicated by the dominance of hydro generation in the  
8 resource base. Until the snow packs are known for the year,  
9 it is very difficult to determine the extent and duration of  
10 the Company's system deficiencies.

11 Q. How does the assumption regarding water  
12 availability impact the planning process?

13 A. Idaho Power has historically planned on a  
14 median water condition. This means water availability is  
15 assumed to be the equivalent of the middle water condition  
16 among the historical group of water conditions. Planning on  
17 median water means that the Company is more dependent on  
18 market purchases for supply in low water years than it would  
19 be if its planning assumption was based on more critical  
20 water conditions. If the Company planned on less than  
21 median water conditions, it would typically add resources  
22 sooner than it would under median water planning and would

1 have more capacity available on an ongoing basis. Of  
2 course, the additional capacity adds additional costs to the  
3 Company's base rates. The trade-off for customers under  
4 median water planning is increasing base rates on an ongoing  
5 basis through the PCA to mitigate rate spikes during poor  
6 water years.

7 Q. How would you propose to evaluate whether or  
8 not it is time to change the water assumption for planning  
9 purposes?

10 A. Idaho Power believes that the Company's 2002  
11 IRP should address the issue in detail.

12 Q. Does this conclude your testimony?

13 A. Yes, it does.